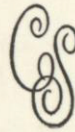


CITY STORES COMPANY

ANNUAL REPORT



FEBRUARY 2, 1952

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CITY STORES COMPANY AND SUBSIDIARIES
ANNUAL REPORT

FEBRUARY 1, 1951 THROUGH FEBRUARY 2, 1952

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CITY STORES COMPANY

POST OFFICE BOX 1528
PHILADELPHIA 5, PA.

LIT BROTHERS

Philadelphia, Pa.
Established 1891

Branch

Lit 69th Street
Upper Darby, Pa. 1949

SWERN & COMPANY

Trenton, New Jersey
Established 1885

MAISON BLANCHE

New Orleans, Louisiana
Established 1887

Branches

Carrollton, New Orleans, La. 1942
Gentilly, New Orleans, La. 1947

LOVEMAN, JOSEPH & LOEB

Birmingham, Alabama
Established 1887

Loveman, Joseph & Loeb

Home Furnishings Store
Birmingham, Alabama 1948

OPPENHEIM, COLLINS & CO., INC.

New York, N. Y.	1901
Philadelphia, Pa.	1903
Buffalo, N. Y.	1905
Brooklyn, N. Y.	1906
Garden City, L. I.	1938
East Orange, N. J.	1946
Morristown, N. J.	1947
Germantown, Phila.	1948
Hackensack, N. J.	1950
Huntington, L. I.	1951
Haddonfield, N. J.	1952

LANSBURGH & BRO.

Washington, D. C.
Established 1860

B. LOWENSTEIN & BROS., INC.

Memphis, Tennessee
Established 1855

Branches

Lowenstein's Home Service, Inc.
Memphis, Tennessee 1944
Lowenstein's "East"
Memphis, Tennessee 1948

KAUFMAN-STRAUS COMPANY

Louisville, Kentucky
Established 1879

R. H. WHITE CORPORATION

Boston, Massachusetts
Established 1858

RICHARD STORE COMPANY

Miami, Florida
Established 1896

WISE, SMITH & COMPANY, INC.

Hartford, Connecticut
Established 1889

FRANKLIN SIMON & CO. INC.

New York, N. Y.	1902
Greenwich, Conn.	1932
East Orange, N. J.	1940
Cleveland, Ohio	1941
Bridgeport, Conn.	1942
Garden City, L. I.	1946
Washington, D. C.	1948
Atlanta, Ga.	1948
Newton, Mass.	1950
Westport, Conn.	1951

CITY STORES COMPANY

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board</i>
SAUL COHN	<i>Vice Chairman of the Board</i>
HERBERT J. SCHWARTZ	<i>President</i>
ALLAN INTRILIGATOR	<i>Vice President and Treasurer</i>
HAROLD W. BRIGHTMAN	<i>Vice President</i>
GORDON K. GREENFIELD	<i>Vice President</i>
ISIDORE NEWMAN, II	<i>Vice President</i>
MAX ROBB	<i>Vice President</i>
O. W. SCHANBACHER	<i>Vice President</i>
MILTON A. KAMSLER	<i>Secretary</i>
IRVING J. ZIPIN	<i>Assistant Secretary</i>
GEORGE D. LEWIS	<i>Assistant Secretary</i>
B. C. MOISE	<i>Assistant Secretary</i>
BENJAMIN SCHNECK	<i>Assistant Treasurer</i>

DIRECTORS

GUSTAVE G. AMSTERDAM Philadelphia, Pa.	ANTHONY G. FELIX Philadelphia, Pa.	DANIEL O. MORTON New York, N. Y.
C. GORDON ANDERSON Miami, Fla.	STANLEY FOLZ Philadelphia, Pa.	ISIDORE NEWMAN, II New Orleans, La.
JAMES H. BECKER Chicago, Ill.	RALPH L. GOLDSMITH Washington, D. C.	MAX ROBB Philadelphia, Pa.
MURRY C. BECKER New York, N. Y.	ALBERT M. GREENFIELD Philadelphia, Pa.	HARRY W. SCHACTER Louisville, Ky.
ALFRED BLASBAND Philadelphia, Pa.	GORDON K. GREENFIELD New York, N. Y.	O. W. SCHANBACHER Birmingham, Ala.
DAVID BORTIN Philadelphia, Pa.	JOSEPH A. W. IGLEHART New York, N. Y.	AARON R. SCHARFF Memphis, Tenn.
HAROLD W. BRIGHTMAN Philadelphia, Pa.	ALLAN INTRILIGATOR New York, N. Y.	HERBERT J. SCHWARTZ New York, N. Y.
J. J. CAPRANO Philadelphia, Pa.	GEORGE H. JOHNSON Philadelphia, Pa.	HAROLD D. WIMPFHEIMER New York, N. Y.
SAUL COHN New York, N. Y.	JOHN B. KNOX Boston, Mass.	

AUDITORS

ERNST & ERNST
120 Broadway
New York, N. Y.

COUNSEL

SUNDHEIM, FOLZ, KAMSLER & GOODIS
1315 Walnut Street
Philadelphia, Pa.

TRANSFER AGENTS

PREFERRED AND COMMON STOCK — The Chase National Bank of the City of New York,
11 Broad Street, New York, N. Y.

REGISTRARS

PREFERRED AND COMMON STOCK — Bank of the Manhattan Company,
40 Wall Street, New York, N. Y.

HIGHLIGHTS

	<u>Period Ended</u>	
	<u>February 2, 1952</u>	<u>January 31, 1951</u>
Total Net Sales	\$219,243,000	\$205,704,000
Net Earnings from Operations and		
Unconsolidated Subsidiaries	3,145,000	3,272,000
Add: Gain on sale of Real Estate	—	1,490,000
	\$ 3,145,000	\$ 4,762,000
Dividends Paid:		
Preferred Stock	447,000	9,000
Common Stock	2,748,000	2,192,000
Working Capital	55,485,000	47,513,000
Current Ratio	3.29	2.61
Earned Surplus	25,930,000	26,151,000
Capital Stock and Surplus	58,095,000	47,960,000

ANNUAL REPORT

FEBRUARY 1, 1951 THROUGH FEBRUARY 2, 1952

April 30, 1952

To the Stockholders of City Stores Company:

The year 1951 witnessed continued growth in the size and accomplishments of your Company. These included the acquisition of Lansburgh & Bro., one of the oldest and better known department stores in Washington, D. C.; the opening of the new and enlarged store building of Richards, Miami, and the consummation of a long-term financing program which resulted in the consolidation of our debt and a material increase in our working capital.

SALES

Total sales of your Company amounted to \$219,243,000 against \$205,704,000 for the preceding year. These sales include those of Lansburgh & Bro. only from August 26, 1951. Because of the rise in costs, higher tax rates, and inventory conditions throughout the industry which required the taking of substantial markdowns, the operating results were somewhat lower than those of the preceding year.

Details of these and other matters are given in this report, together with the customary financial statements for the year, and the report of our independent auditors, Messrs. Ernst & Ernst.

EARNINGS AND DIVIDENDS

Earnings of your Company and its subsidiaries, after taxes, minority interests, and all charges, and including earnings of unconsolidated subsidiaries amounted to \$3,144,733 compared on a like basis with \$3,272,474 for the preceding year, which excludes a non-recurring profit of \$1,489,582 from the sale of real estate.

After deducting preferred dividends paid, these earnings are equal to \$1.38 per share of Common Stock outstanding, compared with \$1.89 per share in the preceding year. In both instances these calculations are made upon the average number of common shares outstanding during each fiscal year.

Dividends on the Common Stock were paid last year at the annual rate of \$1.40 per share, which basis was established January 15, 1951.

FINANCIAL MATTERS

The combined capital stock and surplus of the Company increased \$10,135,000 over last year, bringing this total from \$47,960,000 to \$58,095,000.

Working capital at the close of the year, as reflected by the Consolidated Balance Sheet, amounted to \$55,500,000 against \$47,500,000 last year.

Inventories at the end of the year amounted to \$27,505,000 as compared with \$28,713,000 on January 31, 1951. This year's figure includes \$2,763,000 of Lansburgh & Bro.'s inventory. Reductions in the size of inventories will enable us to secure better turnovers in all of our units. Agings of inventories are satisfactory. In the opinion of your officers, ample merchandise reserves have been provided. Reserves for LIFO increased \$640,000, bringing the present total LIFO reserves to \$5,105,000 against a total of \$4,465,000 last year.

LONG-TERM FINANCING

On November 19, 1951, your Company borrowed on a long-term basis \$13,500,000 from The Prudential Insurance Company of America, and \$1,500,000 from The First National Bank of Boston, subject to terms and provisions of certain loan agreements.

Under the Prudential agreement, the Company will borrow on November 3, 1952, an additional \$5,000,000, and, at any time between November 3, 1952 and November 2, 1953, has the option to borrow an additional \$5,000,000. The Prudential loan, which bears interest at the rate of $3\frac{3}{4}\%$, is payable in annual installments beginning November 1, 1957, and matures on November 1, 1971.

The loan with The First National Bank of Boston is payable in three equal annual installments, beginning November 1, 1954, and bears an interest rate of $3\frac{1}{4}\%$.

The proceeds of the loan were used to retire \$12,539,392 of debt. As of January 31, 1952, the Company had liquidated all short term loans of the parent company and its subsidiaries. The remainder of the funds resulting from this new financing was added to the Company's working capital.

The Company looks forward to the expansion of its present units through modernization and enlargement of its main buildings, and the establishment of additional branch stores.

STORE MATTERS

The following special items will be of interest to the stockholders:

Lit Brothers

As reported last year, Lit Brothers was merged into City Stores Company, effective March 31, 1951. Lit Brothers' management, however, continues unchanged. The merger eliminated outstanding minority interest in Lit Brothers. In this connection, City Stores Company issued approximately 40,000 shares of its convertible Preferred stock.

Richard Store Company

The newly enlarged and modernized building of Richard Store in Miami was completed and opened its doors for business on November 5, 1951, and was enthusiastically received. Business, since the opening, has been gratifying. The expansion included the addition of four floors, approximately 75,000 square feet, new escalators, and complete renovation, redesigning, and refixturing of the interior, and modern treatment of the exterior of the original building.

In order to finance the expansion and modernization program, a serial mortgage was placed on the property of Richard Store Company of \$2,250,000 with The Prudential Insurance Company at an annual interest rate of 4%, maturing November 19, 1971. The mortgage is an obligation of a newly created unrestricted subsidiary, Richard Store Realty Corporation, which entered into a lease with the Richard Store Company for a term of twenty-five years.

Lansburgh & Bro.

On August 20, 1951, your Company acquired 100% of the outstanding capital stock of Lansburgh & Bro., in consideration of the issuance to the former Lansburgh stockholders of 20,000 shares of the Company's $4\frac{1}{4}\%$ Convertible Preferred Stock, and 182,628 shares of the Company's Common Stock.

The main store property, located in the heart of the downtown business section of Washington, D. C., consists of seven floors, having a total area of approximately 280,000 square feet. In addition, it operates two warehouses with a total area of about 190,000 square feet.

The operation of this subsidiary, since its acquisition, has proven profitable and prospects are favorable. The Company is looking forward to a program of modernization of this store property and the establishment of branch stores to serve this fast-expanding community.

Loveman, Joseph & Loeb

The Birmingham warehouse, consisting of 110,000 square feet, was completed and occupied in June, 1951. A \$600,000 mortgage on this property was secured from The Prudential Insurance Company. This mortgage is an obligation of Loveman, Joseph & Loeb, Inc. an unrestricted subsidiary of City Stores Company. The mortgage bears interest at $3\frac{1}{2}\%$ and provides for its repayment on satisfactory terms. The mortgage is secured by a lease from Loveman, Joseph & Loeb, Inc. to City Stores Company.

Oppenheim, Collins & Co., Inc.

A branch store of Oppenheim, Collins & Co., Inc. at Huntington, Long Island, was opened at the end of November, 1951, with satisfactory results. At the same time, the operation of the company's branch

at White Plains was discontinued at the expiration of the lease.

A new branch store is planned for Haddonfield, New Jersey, which will be opened in the near future.

BY-LAW AMENDMENTS

The Company's By-Laws were duly amended to provide for a Board of Directors consisting of not less than 13, and not more than 27. Mr. Joseph A. W. Iglehart, a member of the firm of W. E. Hutton & Company; Mr. James H. Becker, President of A. G. Becker & Co.; Mr. Harold D. Wimpfheimer, Industrialist and Mr. Ralph L. Goldsmith, President of Lansburgh & Bro., were added to the Board of Directors.

The Company also adopted a change in its By-Laws changing the fiscal year, which normally would have ended January 31, 1952, to end February 2, 1952. This was done to enable a change in its fiscal period for the current and ensuing years so as to consist primarily of a 52-week year divided in four equal quarterly periods of 13 weeks each. In turn, each quarter will be divided into three fiscal months of four weeks, five weeks, and four weeks, respectively; each week to begin on Monday and end on Saturday. The last day of the fiscal year will be the Saturday nearest to January 31. This change will facilitate comparisons of operating results.

TRANSFER AGENT AND REGISTRAR

The Chase National Bank of the City of New York has been appointed Transfer and Dividend Disbursement agent, and the Bank of the Manhattan Company, of New York, has been appointed Registrar for the Common and Convertible Preferred Stocks of the Company.

PERSONNEL CHANGES

Dr. William D. Gordon, Vice President, Treasurer, and Director of the Company, tendered his resignation, and Allan Intriligator was elected Vice President and Treasurer, and also was added to the Board of Directors.

Benjamin Schneck was elected Assistant Treasurer and Irving J. Zipin was elected Assistant Secretary and House Counsel.

Ralph M. Chipurnoi resigned as President of Wise, Smith & Company in Hartford, and was succeeded by Samuel Corenswet, formerly Executive Vice President of Maison Blanche Company in New Orleans.

CONCLUSION

The past year saw a decline in profits in the department store business due to conditions, which necessitated excessive markdowns, and due to Government restrictions on markup and installment sales.

The revamping of our capital and financial structure, with the contemplated expansions and improvements of our present units should result in increased volume and more profitable operations for your Company.

The employees of your Company continue to serve loyally and energetically. Their cooperation, together with cordial resource relationships, contribute in no small way to the growth and success of your Company.

Respectfully submitted,

HERBERT J. SCHWARTZ
President

ALBERT M. GREENFIELD
Chairman of the Board

COMPARATIVE CONSOLIDATED CITY STORES COMPANY AND

ASSETS

	February 2, 1952	January 31, 1951*
CURRENT ASSETS		
Cash	\$ 9,048,795	\$ 7,445,643
U. S. Government securities — at cost and accrued interest	20,263	—
Accounts receivable, customers and others, less allowances for doubtful accounts	40,807,843	36,630,405
Merchandise inventories — Note A	27,504,915	28,713,162
Portion of mortgage receivable sold for cash	—	2,600,354
Supplies and prepaid items	2,376,162	1,572,276
TOTAL CURRENT ASSETS	\$ 79,757,978	\$ 76,961,840
OTHER ASSETS		
U. S. Government securities deposited as security under lease	157,035	177,297
Capital stock of parent company	53,800	53,800
Mortgages receivable, sundry investments, and other items	890,859	1,042,956
Refundable income and excess profits taxes of prior years — estimated ..	886,964	931,964
	\$ 1,988,658	\$ 2,206,017
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED REAL ESTATE SUBSIDIARIES — Note B	\$ 1,563,281	\$ 1,428,506
PROPERTY AND EQUIPMENT		
Land, buildings, leaseholds, fixtures, equipment, etc. — at cost, less allowances for depreciation and amortization of \$14,400,624 and \$11,799,151 respectively	25,718,951	24,540,239
UNAMORTIZED DEBT EXPENSE	282,274	183,061
	\$109,311,142	\$105,319,663

* Certain accounts in the balance sheet for 1951, as previously reported, have been reclassified to conform to the classification adopted for the year ended February 2, 1952.

Notes referred to appear on pages 13, 14 and 15.

BALANCE SHEET, FEBRUARY 2, 1952

CONSOLIDATED SUBSIDIARIES

LIABILITIES

	February 2, 1952	January 31, 1951*
CURRENT LIABILITIES		
Notes payable to banks	\$ —	\$ 3,610,000
Portion of long-term debt due within one year	930,913	1,094,340
Accounts payable and accrued expenses	16,754,142	17,037,002
Dividends payable	8,547	687,155
Federal taxes on income — estimated — Note C	5,367,032	6,165,793
Reserves for purchase discounts and mark-downs	962,238	854,424
Payable to dissenting stockholders of merged subsidiary — estimated — Note D	249,900	—
TOTAL CURRENT LIABILITIES	\$ 24,272,772	\$ 29,448,714
LONG-TERM DEBT (less installments due within one year)		
Promissory notes to insurance company and banks — Note E	16,420,000	7,220,000
Notes payable to parent	—	2,419,392
4% Sinking Fund Debentures (subordinated) — Note F	5,400,000	5,700,000
Mortgages payable	1,199,335	1,873,841
	\$ 23,019,335	\$ 17,213,233
RESERVES		
For redemption of trading stamps and for self-insurance	\$ 1,035,714	\$ 1,105,473
For restoration of leased properties	441,899	441,899
	\$ 1,477,613	\$ 1,547,372
DEFERRED INCOME		
Unrealized gross profit and carrying charges on installment sales, etc....	\$ 1,247,117	\$ 1,677,732
MINORITY INTEREST		
Preferred stock — at par	\$ 826,900	\$ 1,198,200
Common stock (\$105,774 and \$435,358 respectively) and surplus applicable thereto	372,799	6,274,182
	\$ 1,199,699	\$ 7,472,382
CAPITAL STOCK AND SURPLUS		
Preferred Stock—Authorized 150,000 shares—\$100.00 par—Notes D and G:		
4¼% Convertible Preferred Stock:		
Issued and Outstanding — 120,964 3/7 shares for 1952 (including 5,634 shares in treasury); 60,000 shares for 1951	\$ 11,533,043	\$ 6,000,000
Common Stock — Authorized 3,000,000 shares — \$5.00 par — Note H:		
Issued and outstanding — 2,065,414 1/7 shares for 1952; 1,876,686 4/12 shares for 1951 (including 10,661 4/12 shares in treasury for both years)	10,273,764	9,330,125
Capital surplus — Note I	10,357,616	6,478,771
Earned surplus — Notes C, E, and F:		
Unappropriated	25,930,183	25,059,688
Appropriated	—	1,091,646
	\$ 58,094,606	\$ 47,960,230
Long-term leases — Note J		
	\$109,311,142	\$105,319,663

COMPARATIVE STATEMENT OF CONSOLIDATED SURPLUS CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

For the periods indicated

	February 1, 1951 to February 2, 1952	February 1, 1950 to January 31, 1951
EARNED SURPLUS		
Unappropriated:		
Balance at beginning of year	\$ 25,059,688	\$ 22,567,319
Add:		
Net profit for year	2,972,360	4,751,135
Adjustment of inventory January 31, 1950, less applicable federal income taxes, resulting from adoption of last-in, first-out principle of inventory valuation	—	180,415
Transfer from surplus appropriated for contingencies	1,091,646	76,258
Sundry credits (net)	1,074	1,439
	<u>\$ 29,124,768</u>	<u>\$ 27,576,566</u>
Deduct:		
Dividends declared:		
On 4¼% Convertible Preferred Stock	446,927	8,550
On Class A Stock — 90¢ per share	—	360,000
On Common Stock — \$1.40 per share and \$1.25 per share respectively	2,747,658	1,832,155
	<u>\$ 3,194,585</u>	<u>\$ 2,200,705</u>
Underwriters' commissions and other expenses in connection with issuance and sale of 60,000 shares of 4¼% Convertible Preferred Stock	—	201,492
Excess of cost over par value of Company's Common Stock re-acquired	—	114,681
	<u>\$ 3,194,585</u>	<u>\$ 2,516,878</u>
Balance at end of year	<u>\$ 25,930,183</u>	<u>\$ 25,059,688</u>
Appropriated for contingencies:		
Balance as of January 31, 1951 (transferred to unappropriated surplus in 1952 — see above)	<u>\$ —</u>	<u>\$ 1,091,646</u>
CAPITAL SURPLUS		
Balance at beginning of year	\$ 6,478,771	\$ 3,267,819
Add credits arising from:		
Acquisitions of additional equities in subsidiaries, including acquisition of its preferred stock by a consolidated subsidiary	134,340	2,990,484
Acquisition of Capital Stock of Lansburgh & Bro., less \$1,449,348 write off of appreciation included in its property accounts — Note G	2,386,964	—
Merger of former subsidiary (Lit Brothers) into City Stores Company — Note D	1,278,351	—
Conversion of preferred stock into common stock, less premium of \$428 paid on preferred stock reacquired	46,353	—
Cancellation of reserves for inventory shrinkage, markdowns, etc. on books of subsidiaries prior to date of acquisition or prior to February 1, 1935	32,837	220,468
Balance at end of year	<u>\$ 10,357,616</u>	<u>\$ 6,478,771</u>

Notes referred to appear on page 14.

COMPARATIVE STATEMENT OF CONSOLIDATED PROFIT AND LOSS (1)

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

For the periods indicated

	February 1, 1951 to February 2, 1952	February 1, 1950 to January 31, 1951
INCOME		
Net sales — including leased departments	\$219,243,471	\$205,703,941
Other income:		
Carrying charges on customers' installment accounts	1,256,627	1,010,028
From properties not used in department store operations (exclusive of depreciation)	177,579	379,012
Sundry other income including interest and dividends of \$206,308 and \$57,462 respectively	728,862	786,755
Realized (unrealized*) gross profit on installment sales	282,120	233,526*
	<u>\$221,688,659</u>	<u>\$207,646,210</u>
 DEDUCTIONS		
Cost of goods sold and operating expenses (before depreciation and amortization)	212,356,930	196,082,665
Depreciation and amortization	2,080,078	1,961,547
Interest	807,332	1,002,987
Sundry charges	207,450	159,601
	<u>\$215,451,790</u>	<u>\$199,206,800</u>
	<u>\$ 6,236,869</u>	<u>\$ 8,439,410</u>
Federal taxes on income — estimated — Note C	3,171,511	4,369,540
	<u>\$ 3,065,358</u>	<u>\$ 4,069,870</u>
Amount applicable to minority interests	92,998	808,317
	<u>\$ 2,972,360</u>	<u>\$ 3,261,553</u>
Profit, exclusive of special item in 1951	—	1,489,582
Gain on sale of real estate, less minority interest share (\$681,598)		
	<u>\$ 2,972,360</u>	<u>\$ 4,751,135</u>
 NET PROFIT APPLICABLE TO CITY STORES COMPANY		
Net profit of unconsolidated subsidiaries applicable to City Stores Company, not included above	<u>\$ 172,373</u>	<u>\$ 10,921</u>

(1) Includes operations of Lansburgh & Bro. from August 26, 1951.

Note referred to appears on page 13.

COMPARATIVE COMBINED BALANCE SHEET
REAL ESTATE SUBSIDIARIES — NOTE B
(Wholly-owned by City Stores Company or Subsidiaries)
FEBRUARY 2, 1952

ASSETS

	February 2, 1952	January 31, 1951
Cash	\$ 123,158	\$ 7,747
Accounts receivable — tenants and miscellaneous	\$ 34,884	\$ 21,374
Due from parent companies	252,851	143,751
Prepaid insurance, rent and sundry expenses	\$ 287,735	\$ 165,125
	21,745	14,888
Land, buildings, leaseholds and equipment — at cost less allowances for de- preciation and amortization of \$4,396,235 and \$3,616,703 respectively..	11,657,880	6,519,092
Unamortized mortgage expense	65,961	19,817
	\$ 12,156,479	\$ 6,726,669

LIABILITIES

Accounts payable and accrued accounts	\$ 178,137	\$ 20,141
Federal taxes on income — estimated	124,722	4,000
Loan and real estate mortgages (including installments due within one year of \$336,492 and \$162,738 respectively)	10,038,556	5,209,527
Deferred income	18,999	3,167
Equity of City Stores Company and subsidiaries, consisting of:		
Advances from parent companies	980,221	1,138,160
Registered 6% — 20 Year Gold Debentures	795,000	795,000
Capital stocks	653,000	378,000
Capital surplus	29,646	29,646
Earned surplus (deficit)	(661,802)	(850,972)
TOTAL EQUITY	\$ 1,796,065	\$ 1,489,834
	\$ 12,156,479	\$ 6,726,669

This balance sheet includes the following subsidiaries:

As to February 2, 1952 and January 31, 1951:

Maison Blanche Corporation
Loveman, Joseph & Loeb, Inc.
The Franklin Simon Realty Corporation
Opco Realty Co., Inc. and wholly owned subsidiary

As to February 2, 1952 only:

Richard Store Realty Corporation
R. H. White Realty Co., Inc.

Note referred to appears on page 13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

FEBRUARY 2, 1952

NOTE A—Inventories of merchandise on hand and in transit were determined generally according to the retail inventory method and were priced in substantial part at cost on the last-in, first-out principle (before allowances for discounts and markdowns shown under Current Liabilities), and the balance, generally, at the lower of cost or market. Inventories so priced on the last-in, first-out principle are stated this year at \$5,105,307 and last year at \$4,464,562 less than they would have been if they had been priced at the lower of cost or market.

NOTE B—Investments in and advances to unconsolidated real estate subsidiaries consist of the following:

	February 2, 1952	January 31, 1951
Securities:		
Capital stocks	\$ 682,646	\$ 406,346
Debenture bonds	795,000	795,000
Advances	980,221	1,138,160
	<u>\$2,457,867</u>	<u>\$2,339,506</u>
Less allowance for loss	894,586	911,000
	<u>\$1,563,281</u>	<u>\$1,428,506</u>

The combined balance sheet of these subsidiaries appears on page 12.

NOTE C—Federal Income Taxes:

As to City Stores Company:

Examination of the income tax return for the fiscal year ended January 31, 1949 resulted in a proposed additional assessment of tax for that year in the approximate amount of \$450,000, substantially all of which constitutes personal holding company surtax. The Company has agreed to immediate assessment of the tax, conditioned, however, upon the prior execution by a qualified official of the Treasury Department of a closing agreement for the year under Section 3760 of the Internal Revenue Code. Should such closing agreement be so executed, it is contemplated that the tax deficiency will be substantially extinguished by application thereagainst of a deficiency dividend credit.

As to subsidiaries:

During the fiscal year ended January 31, 1946, Lit Brothers sold its main store property and concurrently with the sale, leased the property back from the buyer. In its returns for that year, the company claimed a deductible loss in respect of such sale. The company had received a ruling from the Bureau of Internal Revenue, supplemented by a closing agreement restricted to certain points in such ruling, stating in effect that any loss sustained on the sale of the property was deductible for tax purposes but not undertaking to establish the amount of loss.

On February 8, 1952, Lit Brothers received Revenue Agent's report for the fiscal years ended January 31, 1944 through 1948, in which adjustments were proposed which would result in net deficiencies of approximately \$5,525,000, exclusive of interest. This is \$5,075,000 in excess of reserves provided for this purpose. The report also proposes to disallow claims for refund of taxes on income which are being carried in the balance sheet at \$782,000. Protest has been filed by the Company with respect to all the adjustments and disallowances of claims, except certain adjustments amounting to approximately \$450,000 of tax liability. The principal item contested is the proposed disallowance of the loss on the sale of Lit Brothers' main store property, involving approximately \$4,750,000 of the taxes in controversy. The proposed disallowance of the loss by the revenue agent was not based upon determination by him of any factual points left unsettled by the Bureau's ruling to be established upon examination of the return and is, in the opinion of the Company's counsel, diametrically opposed to the points established by the ruling and the closing agreement. In the opinion of Company's counsel the closing agreement is binding on the Treasury Department.

As to City Stores Company and consolidated subsidiaries:

The amounts of the liability for federal and state taxes on income reflected in the accompanying financial statements include no specific provision for additional assessments of prior years' taxes against City Stores Company and/or its subsidiaries, except as herein set forth.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTE D—Pursuant to a Joint Plan and Agreement of Merger, Lit Brothers (a former subsidiary) was merged into City Stores Company on March 31, 1951, and in connection therewith, the latter issued 40,301 $\frac{3}{7}$ shares of its $4\frac{1}{4}\%$ Convertible Preferred Stock to minority shareholders of Lit Brothers, on the basis of 1 share of such Preferred Stock for each 7 shares of Lit Brothers common stock. At February 2, 1952, 663 shares of Preferred Stock (included in outstanding shares at that date) were issuable on surrender by shareholders of 4,641 shares of the common stock of Lit Brothers. Shareholders owning 16,660 of the common stock of Lit Brothers dissented to the Plan and have made demand upon the Company for payment of the fair value of their shares, the estimated liability of which, in the opinion of counsel for the Company is \$249,900. Since February 2, 1952, 3,500 of such shares have been acquired for cash.

NOTE E—Under a loan agreement, dated November 19, 1951, providing for a total credit of \$23,500,000, the Company borrowed initially \$13,500,000 from The Prudential Insurance Company of America, payable in annual instalments on November 1 of each year in the amount of \$700,000 from 1957 to 1961, and \$800,000 from 1962 to 1970, and the balance on November 1, 1971. The Company is committed to borrow the further sum of \$5,000,000 on November 3, 1952, in accordance with the terms of the agreement, and on that date but not later than November 2, 1953 may, at its option, borrow an additional \$5,000,000.

Concurrently with the execution of the aforementioned loan agreement, the Company entered into a bank loan agreement under the terms of which it borrowed the sum of \$1,500,000 payable in equal annual instalments of \$500,000 on November 1 of each year commencing in 1954.

It is provided in the loan agreements that, without the written consent of the obligees, the Company will not (a) permit its consolidated working capital at any time to be less than \$37,500,000 (which amount is increased to \$40,000,000 and \$42,500,000, respectively, upon the borrowing of the additional amounts set forth above), and (b) will not after February 9, 1953 pay or declare dividends in any form other than stock of the Company on or, after November 19, 1951, acquire shares of, any class of its capital stock unless after giving effect thereto, 100% of the consolidated net earnings (as defined) of the Company commencing February 1, 1950 (70% of the consolidated net earnings (as defined) commencing February 1, 1954) equal or exceed the sum of (1) dividends paid plus (2) the excess of the aggregate consideration paid on acquisition of any class of stock of the Company over the aggregate consideration received from the sale of shares of any class of its stock. This provision does not, however, prohibit the payment of fixed dividends on the preferred stock of the Company or the acquisition of such preferred stock to meet the requirements of the sinking fund.

Franklin Simon & Co. Inc. at February 2, 1952 had promissory notes outstanding of \$1,300,000 after deducting \$500,000 included in current liabilities. Under the terms of a credit agreement, this subsidiary may only pay dividends on common stock to the extent that half of the net earnings of the preceding fiscal year exceeds the current dividend and sinking fund requirements of its preferred stock. No dividends on common stock of this subsidiary have been payable since acquisition of control by City Stores Company.

NOTE F—The 4% Sinking Fund Debentures (subordinated), originally issued by Lit Brothers, became an obligation of City Stores Company on merger of Lit Brothers into the Company on March 31, 1951. The Company is required to retire \$300,000 in principal amount of such debentures annually, and is subject to certain restrictions with respect to the payment of dividends. At February 2, 1952, consolidated earned surplus of approximately \$5,400,000 was not restricted by the Indenture.

NOTE G—The $4\frac{1}{4}\%$ Convertible Preferred Stock is convertible on or before February 1, 1966 into shares of Common Stock of the Company on the basis of specified common share valuations.

Beginning May 1, 1953, the $4\frac{1}{4}\%$ Convertible Preferred Stock is entitled to the benefit of a Sinking Fund sufficient to retire annually the greater of (1) 2% of the greatest number of shares at any time theretofore outstanding less shares theretofore converted into Common Stock, or (2) that number of shares obtained by dividing an amount equal to 5% of consolidated net earnings of the Company and its restricted subsidiaries (as defined) for the preceding fiscal year (after taxes and after dividends on the Convertible Preferred Stock) by \$100. In addition to the foregoing, and among other things, the provisions of the Convertible Preferred Stock issue contain certain restrictions and limitations with respect to funded debt, issuance of additional shares of Preferred Stock, authorization of mergers or consolidations, etc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTE H—The authorized shares of Common Stock include 549,192 shares reserved for issuance upon conversion of the 4 $\frac{1}{4}$ % Convertible Preferred Stock.

NOTE I—In August 1951, the Company acquired all of the outstanding capital stock of Lansburgh & Bro. in consideration for 20,000 shares of 4 $\frac{1}{4}$ % Convertible Preferred Stock and 182,628 shares of Common Stock of the Company. The excess (\$2,739,420) of the aggregate value ascribed to the Preferred and Common shares so issued over the par value of such shares (\$2,913,140) was credited to capital surplus. The net tangible assets of Lansburgh & Bro. exceeded the amount at which the investment was recorded by \$1,096,891, which amount has been added to consolidated capital surplus.

NOTE J—At February 2, 1952, the Company and its subsidiaries had 54 leases on real estate properties (exclusive of intercompany leases) with terms expiring more than three years from that date. The aggregate minimum annual rental under such leases amounted to approximately \$2,140,234, plus, in certain instances, charges for taxes and insurance, and in the case of 22 leases additional rental based on a percentage of sales over a fixed amount.

ERNST & ERNST
120 BROADWAY
NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
PHILADELPHIA 5, PENNSYLVANIA

We have examined the consolidated balance sheet of City Stores Company and consolidated subsidiaries as of February 2, 1952, and the related statements of consolidated profit and loss and surplus for the period from February 1, 1951 to February 2, 1952. The consolidated financial statements include the assets and liabilities, and results of operations of Oppenheim, Collins & Co., Inc. and certain subsidiaries and Franklin Simon & Co. Inc. as at, or for the period ended, February 2, 1952, as reported by other independent accountants. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records of the companies and such other auditing procedures as we considered necessary in the circumstances, except in respect of the two companies mentioned above.

In our opinion, based upon our examination and upon the reports of other independent accountants as to the financial statements of the two subsidiaries hereinbefore mentioned, the accompanying balance sheet and statements of profit and loss and surplus present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at February 2, 1952, and the consolidated results of operations for the period from February 1, 1951 to February 2, 1952, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

ERNST & ERNST

New York, N. Y.
April 15, 1952.

LIT BROTHERS



PHILADELPHIA, PA.



69th STREET, UPPER DARBY, PA.



BROTHERS WAREHOUSE, PHILA.

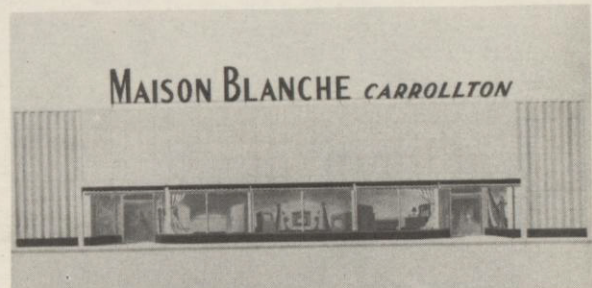


SWERN & COMPANY, TRENTON, N. J.

MAISON BLANCHE



NEW ORLEANS, LOUISIANA



CARROLLTON, NEW ORLEANS



GENTILLY, NEW ORLEANS



LOVEMAN, JOSEPH & LOEB
BIRMINGHAM, ALA.



WAREHOUSE

HOME FURNISHINGS STORE
SECOND AVENUE



MEMPHIS, TENN.

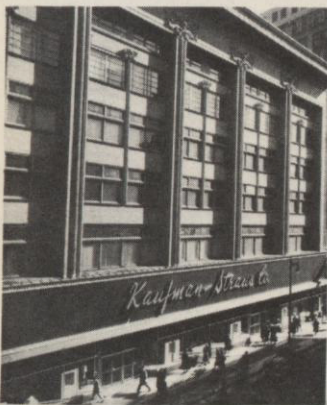
B. LOWENSTEIN & BROS., INC.



LOWENSTEIN'S "EAST," MEMPHIS



LOWENSTEIN'S HOME SERVICE, INC.
MEMPHIS



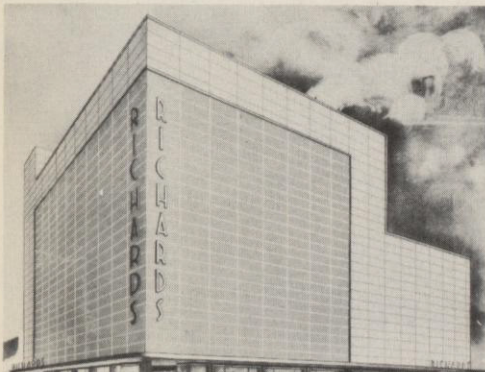
KAUFMAN-STRAUS COMPANY
LOUISVILLE, KY.



R. H. WHITE CORPORATION
BOSTON, MASS.



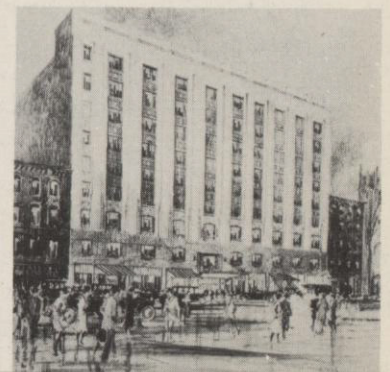
WAREHOUSE
CAMBRIDGE, MASS.



RICHARD STORE COMPANY
MIAMI, FLA.



LANSBURGH & BRO.
WASHINGTON, D. C.



WISE, SMITH & COMPANY, INC.
HARTFORD, CONN.

OPPENHEIM, COLLINS & CO., INC.



PHILADELPHIA, PA.



GERMANTOWN, PHILA.,



NEW YORK, 34th STREET



MORRISTOWN, N. J.



HUNTINGTON, L. I.



HACKENSACK, N. J.



EAST ORANGE, N. J.



BROOKLYN, N. Y.



GARDEN CITY, L. I.



BUFFALO, N. Y.

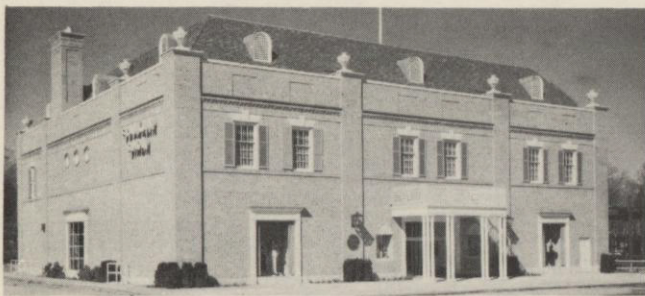


HADDONFIELD, N. J.

FRANKLIN SIMON & CO. INC.



FIFTH AVENUE, N. Y.



NEWTON, MASS.



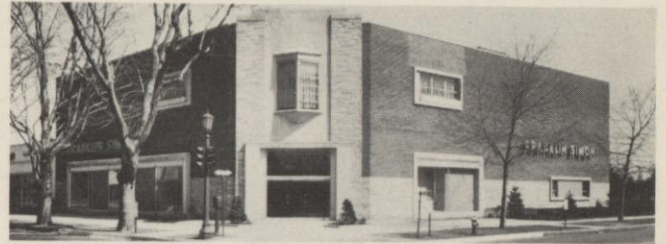
ATLANTA, GA.



BRIDGEPORT, CONN.



WASHINGTON, D. C.



GARDEN CITY, L. I.



SHAKER HEIGHTS, CLEVELAND, OHIO



EAST ORANGE, N. J.



WESTPORT, CONN.



GREENWICH, CONN.

